

**CITY OF CHEROKEE**  
**INDEPENDENT AUDITORS' REPORTS**  
**PRIMARY GOVERNMENT FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2012**

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CITY OF CHEROKEE  
OFFICIALS

(Before January 2012)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mark Murphy	Mayor	January 2014
Linda Burkhart	Council Member, Mayor Pro-Tem	January 2012
Greg Stieneke (partial year)	Council Member	January 2012
Wayne Pingel (partial year)	Council Member	January 2012
Jim Peck	Council Member	January 2012
Mick Mallory	Council Member	January 2014
Dan Morrow	Council Member	January 2014
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

(After January 1, 2012)

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mark Murphy	Mayor	January 2014
Mick Mallory	Council Member, Mayor Pro-Tem	January 2014
Dan Morrow	Council Member	January 2014
Chad Brown	Council Member	January 2016
Wayne Pingel	Council Member	January 2016
Jim Peck	Council Member	January 2016
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

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FAX 712-262-3159

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P.O. Box 187  
Milford, Iowa 51351-0187  
Phone 712-338-2488  
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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Cherokee  
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the component units required to be discretely presented totaling \$374,788, \$-0-, \$374,788, \$207,298, and \$271,163, respectively, have not been reported.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity

with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component units of the City of Cherokee, Iowa, as of June 30, 2012, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, and each major fund for the primary government of the City of Cherokee at June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2013 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison information on pages 22 through 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Wintner, Starnes & Co., LLP

January 17, 2013

## **BASIC FINANCIAL STATEMENTS**

CITY OF CHEROKEE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

		Program Receipts		
		Charges for	Operating	Capital
	Disbursements	Service	Grants and	Grants and
			Contributions	Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety .....	\$1,022,695	\$ 35,991	\$ 6,900	
Public works .....	2,728,927		817,510	
Culture and recreation .....	1,153,249	156,938	90,861	
Community and economic development .....	27,632			
General government .....	186,192			
Debt service .....	1,604,978			\$ 171,151
Capital projects .....	207,874			
Total governmental activities	<u>6,931,547</u>	<u>192,929</u>	<u>915,271</u>	<u>171,151</u>
Business-type activities:				
Water .....	768,900	914,508		
Sewer .....	990,738	1,071,165		
Landfill .....	153,016	163,207		
Solid waste .....	252,365	257,028		
Storm water .....	594	80,850		
Total business-type activities	<u>2,165,613</u>	<u>2,486,758</u>		
TOTAL	<u>\$9,097,160</u>	<u>\$2,679,687</u>	<u>\$ 915,271</u>	<u>\$ 171,151</u>
General Receipts:				
Property taxes and other city tax levied for:				
General purposes .....				
Tax increment financing .....				
Debt service .....				
Local option sales tax .....				
Hotel/motel tax .....				
Grants and contributions not restricted to specific purpose .....				
Unrestricted investment interest .....				
Bond proceeds .....				
Miscellaneous .....				
Transfers .....				
Total general receipts and transfers				
Change in cash basis net assets .....				
Cash basis net assets - beginning of year .				
Cash basis net assets - end of year				
Cash basis net assets:				
Restricted:				
Nonexpendable:				
Cemetery perpetual care .....				
Expendable:				
Debt service .....				
Streets .....				
Employee benefits .....				
Other purposes .....				
Unrestricted .....				
Total cash basis net assets				

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (979,804)		\$ (979,804)
(1,911,417)		(1,911,417)
(905,450)		(905,450)
(27,632)		(27,632)
(186,192)		(186,192)
(1,433,827)		(1,433,827)
(207,874)		(207,874)
<u>(5,652,196)</u>		<u>(5,652,196)</u>
	\$ 145,608	145,608
	80,427	80,427
	10,191	10,191
	4,663	4,663
	<u>80,256</u>	<u>80,256</u>
	<u>321,145</u>	<u>321,145</u>
<u>(5,652,196)</u>	<u>321,145</u>	<u>(5,331,051)</u>
1,659,866		1,659,866
248,846		248,846
414,951		414,951
501,773		501,773
94,970		94,970
15,986		15,986
27,010	3,106	30,116
264,331		264,331
487,704	25,807	513,511
<u>175,882</u>	<u>(175,882)</u>	
<u>3,891,319</u>	<u>(146,969)</u>	<u>3,744,350</u>
(1,760,877)	174,176	(1,586,701)
<u>3,521,915</u>	<u>844,725</u>	<u>4,366,640</u>
<u>\$1,761,038</u>	<u>\$1,018,901</u>	<u>\$2,779,939</u>
\$ 136,896		\$ 136,896
132,486	\$ 31,350	163,836
1,035,634		1,035,634
77,750		77,750
263,667		263,667
<u>114,605</u>	<u>987,551</u>	<u>1,102,156</u>
<u>\$1,761,038</u>	<u>\$1,018,901</u>	<u>\$2,779,939</u>

See Notes to Financial Statements



CITY OF CHEROKEE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

		Special Revenue		
	General	Road Use	Employee Benefits	Local Option Sales Tax
RECEIPTS:				
Property tax .....	\$1,064,292		\$595,574	
Tax increment financing .....				
Other city taxes .....	94,970			\$ 501,773
Licenses and permits .....	18,514			
Use of money and property .....	14,527		185	3,428
Intergovernmental .....	32,400	\$498,253		319,257
Charges for service .....	178,401			
Special assessments .....				
Miscellaneous .....	<u>217,043</u>	<u>28,833</u>	<u>44,952</u>	<u>86,334</u>
TOTAL RECEIPTS	<u>1,620,147</u>	<u>527,086</u>	<u>640,711</u>	<u>910,792</u>
DISBURSEMENTS:				
Operating:				
Public safety .....	703,808		318,687	
Public works .....		488,450	108,210	2,153,113
Culture and recreation .....	908,563		124,002	
Community and economic development .....	25,187			
General government .....	296,077		77,816	
Debt service .....				
Capital projects .....				
TOTAL DISBURSEMENTS	<u>1,933,635</u>	<u>488,450</u>	<u>628,715</u>	<u>2,153,113</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(313,488)</u>	<u>38,636</u>	<u>11,996</u>	<u>(1,242,321)</u>
OTHER FINANCING SOURCES (USES):				
Bond proceeds .....	19,331			
Operating transfers in .....	187,701	49,059	22,418	
Operating transfers out .....	<u>(31,920)</u>	<u>(72,171)</u>		<u>(250,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>175,112</u>	<u>(23,112)</u>	<u>22,418</u>	<u>(250,000)</u>
NET CHANGE IN CASH BALANCES	(138,376)	15,524	34,414	(1,492,321)
CASH BALANCES - BEGINNING OF YEAR .....	<u>319,130</u>	<u>39,212</u>	<u>43,336</u>	<u>2,473,219</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$ 180,754</u>	<u>\$ 54,736</u>	<u>\$ 77,750</u>	<u>\$ 980,898</u>
CASH BASIS FUND BALANCES:				
Nonspendable - Cemetery perpetual care .....				
Restricted for:				
Debt service .....				
Streets .....		\$ 54,736		\$980,898
Employee benefits .....			\$ 77,750	
Other purposes .....				
Unassigned .....	<u>\$ 180,754</u>			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 180,754</u>	<u>\$ 54,736</u>	<u>\$ 77,750</u>	<u>\$ 980,898</u>

## Exhibit B

<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
	\$ 414,951		\$2,074,817
		\$ 248,846	248,846
			596,743
			18,514
\$ 7,507	731	632	27,010
		77,361	927,271
			178,401
	171,151		171,151
<u>312,905</u>	<u>13,720</u>	<u>28,095</u>	<u>731,882</u>
<u>320,412</u>	<u>600,553</u>	<u>354,934</u>	<u>4,974,635</u>
200			1,022,695
34,318			2,784,091
		120,684	1,153,249
2,445			27,632
			373,893
525,000	1,079,978		1,604,978
<u>81,212</u>		<u>126,662</u>	<u>207,874</u>
<u>643,175</u>	<u>1,079,978</u>	<u>247,346</u>	<u>7,174,412</u>
<u>(322,763)</u>	<u>(479,425)</u>	<u>107,588</u>	<u>(2,199,777)</u>
		245,000	264,331
51,920	514,468		825,566
<u>(34,318)</u>		<u>(261,275)</u>	<u>(649,684)</u>
<u>17,602</u>	<u>514,468</u>	<u>(16,275)</u>	<u>440,213</u>
(305,161)	35,043	91,313	(1,759,564)
<u>135,647</u>	<u>97,443</u>	<u>309,250</u>	<u>3,417,237</u>
<u>\$ (169,514)</u>	<u>\$ 132,486</u>	<u>\$ 400,563</u>	<u>\$1,657,673</u>
		\$ 136,896	\$ 136,896
	\$ 132,486		132,486
			1,035,634
			77,750
		263,667	263,667
<u>\$ (169,514)</u>			<u>11,240</u>
<u>\$ (169,514)</u>	<u>\$ 132,486</u>	<u>\$ 400,563</u>	<u>\$1,657,673</u>

CITY OF CHEROKEE  
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 7) ..... \$ 1,657,673

Amounts reported for governmental activities in the Statement of Activities and  
 Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain  
 building replacements or improvements to individual funds. The assets of the  
 Internal Service Fund are included in governmental activities in the Statement of  
 Activities and Net Assets. .... 103,365

CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5) ..... \$ 1,761,038

NET CHANGE IN CASH BALANCES (Page 7) ..... \$(1,759,564)

Amounts reported for governmental activities in the Statement of Activities and Net  
 Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain  
 building replacements or improvements to individual funds. The change in net assets  
 of the Internal Service Fund is reported with governmental activities. .... (1,313)

CHANGE IN CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5) ..... \$(1,760,877)

CITY OF CHEROKEE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service .....	\$ 987,067	\$1,195,306	\$501,085	\$2,683,458	
Use of money and property .....	2,048	569	489	3,106	\$ 287
Miscellaneous .....	11,307	14,500		25,807	30,223
TOTAL OPERATING RECEIPTS	<u>1,000,422</u>	<u>1,210,375</u>	<u>501,574</u>	<u>2,712,371</u>	<u>30,510</u>
OPERATING DISBURSEMENTS:					
Business-type activities .....	<u>841,459</u>	<u>730,135</u>	<u>405,975</u>	<u>1,977,569</u>	<u>31,823</u>
TOTAL OPERATING DISBURSEMENTS	<u>841,459</u>	<u>730,135</u>	<u>405,975</u>	<u>1,977,569</u>	<u>31,823</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>158,963</u>	<u>480,240</u>	<u>95,599</u>	<u>734,802</u>	<u>(1,313)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Debt service .....		(384,744)		(384,744)	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)		(384,744)		(384,744)	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	158,963	95,496	95,599	350,058	(1,313)
Transfers - net .....	<u>(111,134)</u>	<u>(54,441)</u>	<u>(10,307)</u>	<u>(175,882)</u>	
NET CHANGE IN CASH BALANCES	47,829	41,055	85,292	174,176	(1,313)
CASH BALANCES - BEGINNING OF YEAR	<u>672,960</u>	<u>30,694</u>	<u>141,071</u>	<u>844,725</u>	<u>104,678</u>
CASH BALANCES - END OF YEAR	<u>\$ 720,789</u>	<u>\$ 71,749</u>	<u>\$226,363</u>	<u>\$1,018,901</u>	<u>\$103,365</u>
CASH BASIS FUND BALANCES:					
Restricted for debt service .....		\$ 31,350		\$ 31,350	
Unrestricted .....	<u>\$ 720,789</u>	<u>40,399</u>	<u>\$226,363</u>	<u>987,551</u>	<u>\$103,365</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 720,789</u>	<u>\$ 71,749</u>	<u>\$226,363</u>	<u>\$1,018,901</u>	<u>\$103,365</u>

CITY OF CHEROKEE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN CASH BALANCE  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2012

	Agency Fund Cherokee Aviation <u>Authority</u>
CASH BALANCE - BEGINNING OF YEAR .....	
RECEIPTS:	
Property tax .....	\$ 17,733
Miscellaneous .....	<u>219,585</u>
TOTAL RECEIPTS	237,318
DISBURSEMENTS:	
To other governments .....	<u>237,581</u>
CASH DEFICIT - END OF YEAR	<u>\$ (263)</u>

## **NOTES TO FINANCIAL STATEMENTS**

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Cherokee Community Foundation and Cherokee Public Library Foundation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with accounting principles generally accepted in the United States of America as they relate to the exclusion of the component units.

Cherokee Community Foundation and Cherokee Public Library Foundation are considered component units of the City of Cherokee, since these entities provide fundraising activities to benefit programs and projects of the City. Financial statements of these entities are not separately prepared.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, as such, are reported as an agency fund of the City.

**B. Basis of Presentation**

Government-Wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement.

Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax allocation from the State of Iowa to be used for road construction.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.



CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance.

**C. Measurement Focus and Basis of Accounting**

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D. Governmental Cash Basis Fund Balances**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in the preceding classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, general government, and debt service functions.

**F. Subsequent Events**

Management has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

**2. CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2012.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**3. BONDS AND NOTES PAYABLE**

Annual debt service requirements to maturity for general obligation notes and revenue notes and bonds are as follows:

Year Ending June 30,	<u>General Obligation Notes</u>		<u>Revenue Notes/Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 930,000	\$146,453	\$ 278,000	\$102,030	\$1,208,000	\$ 248,483
2014	815,000	123,530	290,000	93,690	1,105,000	217,220
2015	845,000	106,526	299,000	84,990	1,144,000	191,516
2016	505,000	85,780	309,000	76,020	814,000	161,800
2017	415,000	71,565	319,000	66,750	734,000	138,315
2018 - 2022	1,565,000	193,572	1,614,000	182,970	3,179,000	376,542
2023 - 2027	280,000	9,940	255,000	15,600	535,000	25,540
2028 - 2032			37,000	2,820	37,000	2,820
Total	<u>\$5,355,000</u>	<u>\$737,366</u>	<u>\$3,401,000</u>	<u>\$624,870</u>	<u>\$8,756,000</u>	<u>\$1,362,236</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

Capital Lease Purchase Agreement

The City has entered into a capital lease purchase agreement to lease a dump truck and a tractor with historical costs of \$64,724 and \$19,331, respectively. The following is a schedule of the future minimum lease payments, including interest at a rate of 4% per annum.

<u>Year Ending June 30</u>	<u>Total</u>
2013 .....	\$ 44,581
2014 .....	<u>10,266</u>
TOTAL	<u>\$ 54,847</u>

Revenue Notes/Bonds

The City had pledged future aquatic center pledge receipts to repay \$1,650,000 in aquatic center revenue bonds issued in February 2007. Proceeds from the bonds provided financing for construction of a new aquatic center. The bonds were payable solely from aquatic center pledge receipts and were all retired at June 30, 2012. For the current year, principal and interest paid from the Capital Projects Fund and total pledge receipts were \$525,000 and \$7,507, respectively.

The City has pledged future sewer customer receipts net of specified operating disbursements to repay \$5,704,000 in sewer revenue bonds issued in 1999, 2002, and 2011. Proceeds from the bonds provided financing for sewer system improvements. The bonds are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 80% percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$4,025,870. For the current year, principal and interest paid and total customer net receipts were \$384,744 and \$480,240, respectively.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**3. BONDS AND NOTES PAYABLE - Continued**

The resolutions providing for the issuance of sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

At June 30, 2012, the balance of the bond and interest sinking fund is \$31,350.

**4. PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$125,650, \$109,480, and 99,308, respectively, equal to the required contributions for each year.

**5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description - The City operates a single-employer retiree health plan which provides medical/prescription drug benefits for employee and retirees. There are no retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Contributions are required for retiree coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**5. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued**

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The city currently finances the retiree benefit plan on a pay-as-you-go basis. Depending on plan level selected, the most recent active member monthly premiums for the City and plan members range from \$464 for single coverage to \$1,424 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City made no contributions to the retiree benefit plan.

**6. COMPENSATED ABSENCES**

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2012, primarily relating to the General Fund, is \$269,456.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2012.

**7. LANDFILL CONTRACT**

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$138,672 by the City. This amount is based on a percentage of total population within the county.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**8. INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue: Local Option Sales Tax	\$250,000
	Special Revenue: Urban Renewal TIF	190,000
	Capital Projects	34,318
	Water	38,575
	Sewer	1,575
Total Transfers to Debt Service		<u>514,468</u>
Capital Projects	Special Revenue: Road Use	35,000
	General	16,920
Total Transfers to Capital Projects		<u>51,920</u>
Sewer	Special Revenue: Urban Renewal TIF	<u>71,275</u>
General	Special Revenue: Road Use	37,171
	Proprietary: Water	72,559
	Proprietary: Sewer	67,664
	Proprietary: Solid waste	8,365
	Proprietary: Landfill	1,942
Total Transfers to General		<u>187,701</u>
Road Use	Sewer	34,059
	General	15,000
Total Transfers to Road Use		<u>49,059</u>
Employee Benefits	Sewer	<u>22,418</u>
Total		<u>\$896,841</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**9. RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials and employees, totaling \$1,400 during the year ended June 30, 2012.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**10. RISK MANAGEMENT**

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2012 were \$120,889.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**10. RISK MANAGEMENT - Continued**

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, and lift station in flood area. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**11. LOANS RECEIVABLE**

At June 30, 2012, the City had the following outstanding balances on loans made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%. .....	\$ 4,741
Headlines - \$10,000 loan on May 1, 2008, payable in 120 monthly payments of \$111.02, including interest at 6%. ....	<u>6,543</u>
TOTAL	<u>\$ 11,284</u>

**12. DEFICIT FUND BALANCES**

The following funds had a deficit balance at June 30, 2012:

<u>Fund</u>	<u>Deficit Balance June 30, 2012</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Capital Projects Fund	\$(169,514)	Increase in expenditures	Increase revenues
Proprietary:			
Solid waste	(6,800)	Increase in expenditures	Reduce spending
Agency:			
Cherokee Aviation Authority	(263)	Timing of reimbursement	Receive reimbursement



CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**13. LITIGATION**

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

**14. COMMITMENT**

At June 30, 2012, the City had construction contracts for the infrastructure projects totaling approximately \$2,593,930 of which approximately \$388,502 remained outstanding.

**15. SUBSEQUENT EVENTS**

In August 2012, the City entered into construction contracts for \$345,099 for the Spring Lake Yacht Club project. The City was awarded a \$347,900 Community Development Block Grant for a housing rehab program.

In October 2012, the City entered into construction contracts for \$125,676 for infrastructure projects. The City also issued \$350,000 of general obligation notes.

## OTHER INFORMATION

CITY OF CHEROKEE  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
OTHER INFORMATION (UNAUDITED)  
YEAR ENDED JUNE 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax .....	\$2,074,817		
Tax increment financing collections .....	248,846		
Other city taxes .....	596,743		
Licenses and permits .....	18,514		
Use of money and property .....	27,010	\$ 3,393	\$ 287
Intergovernmental .....	927,271		
Charges for service .....	178,401	2,683,458	
Special assessments .....	171,151		
Miscellaneous .....	<u>731,882</u>	<u>56,030</u>	<u>30,223</u>
TOTAL RECEIPTS	<u>4,974,635</u>	<u>2,742,881</u>	<u>30,510</u>
DISBURSEMENTS:			
Public safety .....	1,022,695		
Public works .....	2,784,091		
Culture and recreation .....	1,153,249		
Community and economic development .....	27,632		
General government .....	373,893		
Debt service .....	1,604,978		
Capital projects .....	207,874		
Business-type activities .....		<u>2,394,136</u>	<u>31,823</u>
TOTAL DISBURSEMENTS	<u>7,174,412</u>	<u>2,394,136</u>	<u>31,823</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(2,199,777)	348,745	(1,313)
OTHER FINANCING SOURCES - NET .....	<u>440,213</u>	<u>(175,882)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	(1,759,564)	172,863	(1,313)
BALANCES - BEGINNING OF YEAR .....	<u>3,417,237</u>	<u>949,403</u>	<u>104,678</u>
BALANCES - END OF YEAR	<u>\$1,657,673</u>	<u>\$1,122,266</u>	<u>\$103,365</u>

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<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$2,074,817	\$2,047,003	\$ 2,047,003	\$ 27,814
248,846	261,985	261,985	(13,139)
596,743	805,535	812,905	(216,162)
18,514	15,990	15,990	2,524
30,116	59,644	59,644	(29,528)
927,271	812,006	1,097,324	(170,053)
2,861,859	2,913,330	2,913,330	(51,471)
171,151	62,815	62,815	108,336
<u>757,689</u>	<u>840,341</u>	<u>1,096,187</u>	<u>(338,498)</u>
<u>7,687,006</u>	<u>7,818,649</u>	<u>8,367,183</u>	<u>(680,177)</u>
1,022,695	1,016,037	1,023,842	1,147
2,784,091	2,823,155	3,037,208	253,117
1,153,249	1,015,370	1,023,270	(129,979)
27,632	33,000	40,122	12,490
373,893	361,679	369,019	(4,874)
1,604,978	1,074,144	1,074,144	(530,834)
207,874	563,664	776,380	568,506
<u>2,362,313</u>	<u>2,925,141</u>	<u>3,021,135</u>	<u>658,822</u>
<u>9,536,725</u>	<u>9,812,190</u>	<u>10,365,120</u>	<u>828,395</u>
(1,849,719)	(1,993,541)	(1,997,937)	148,218
<u>264,331</u>	<u>          </u>	<u>254,421</u>	<u>9,910</u>
(1,585,388)	<u>\$(1,993,541)</u>	<u>\$(1,743,516)</u>	<u>\$ 158,218</u>
<u>4,261,962</u>			
<u>\$2,676,574</u>			

CITY OF CHEROKEE  
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$552,930. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the culture and recreation, general government, and debt service functions.

## **SUPPLEMENTARY INFORMATION**

CITY OF CHEROKEE  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue		
	Urban Renewal TIF	Revolving Loan	Library Memorial
RECEIPTS:			
Tax increment financing .....	\$248,846		
Use of money and property .....		\$ 231	\$ 26
Intergovernmental .....			3,139
Miscellaneous .....		4,108	19,220
TOTAL RECEIPTS	<u>248,846</u>	<u>4,339</u>	<u>22,385</u>
DISBURSEMENTS:			
Operating:			
Culture and recreation .....			26,422
Capital projects .....	<u>126,662</u>		
TOTAL DISBURSEMENTS	<u>126,662</u>		<u>26,422</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>122,184</u>	<u>4,339</u>	<u>(4,037)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds .....	245,000		
Operating transfers out .....	<u>(261,275)</u>		
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16,275)</u>		
NET CHANGE IN CASH BALANCES	105,909	4,339	(4,037)
CASH BALANCES - BEGINNING OF YEAR .....	<u>31,232</u>	<u>87,187</u>	<u>11,439</u>
CASH BALANCES - END OF YEAR	<u>\$137,141</u>	<u>\$ 91,526</u>	<u>\$ 7,402</u>
CASH BASIS FUND BALANCES:			
Nonspendable - cemetery perpetual care .....			
Restricted for other purposes .....	<u>\$137,141</u>	<u>\$ 91,526</u>	<u>\$ 7,402</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$137,141</u>	<u>\$ 91,526</u>	<u>\$ 7,402</u>

# Schedule 1

<u>Parks &amp; Recreation Capital Improvements</u>	<u>Permanent Oak Hill Perpetual Care</u>	<u>Total</u>
		\$248,846
\$ 16	\$ 359	632
74,222		77,361
<u>3,695</u>	<u>1,072</u>	<u>28,095</u>
<u>77,933</u>	<u>1,431</u>	<u>354,934</u>
87,800	6,462	120,684
		<u>126,662</u>
<u>87,800</u>	<u>6,462</u>	<u>247,346</u>
<u>(9,867)</u>	<u>(5,031)</u>	<u>107,588</u>
		245,000
		<u>(261,275)</u>
		<u>(16,275)</u>
(9,867)	(5,031)	91,313
<u>37,465</u>	<u>141,927</u>	<u>309,250</u>
<u>\$ 27,598</u>	<u>\$136,896</u>	<u>\$400,563</u>
	\$136,896	\$136,896
<u>\$ 27,598</u>		<u>263,667</u>
<u>\$ 27,598</u>	<u>\$136,896</u>	<u>\$400,563</u>



CITY OF CHEROKEE  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds			
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:				
Charges for service .....	\$163,207	\$257,028	\$80,850	\$501,085
Use of money and property .....			489	489
TOTAL OPERATING RECEIPTS	<u>163,207</u>	<u>257,028</u>	<u>81,339</u>	<u>501,574</u>
OPERATING DISBURSEMENTS:				
Business type activities .....	<u>153,016</u>	<u>252,365</u>	<u>594</u>	<u>405,975</u>
TOTAL OPERATING DISBURSEMENTS	<u>153,016</u>	<u>252,365</u>	<u>594</u>	<u>405,975</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	10,191	4,663	80,745	95,599
TRANSFERS - NET .....	<u>(1,942)</u>	<u>(8,365)</u>		<u>(10,307)</u>
NET CHANGE IN CASH BALANCES	8,249	(3,702)	80,745	85,292
CASH BALANCES - BEGINNING OF YEAR .....	<u>(3,443)</u>	<u>(3,098)</u>	<u>147,612</u>	<u>141,071</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$ 4,806</u>	<u>\$ (6,800)</u>	<u>\$228,357</u>	<u>\$226,363</u>
CASH BASIS FUND BALANCES:				
Unrestricted .....	<u>\$ 4,806</u>	<u>\$ (6,800)</u>	<u>\$228,357</u>	<u>\$226,363</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 4,806</u>	<u>\$ (6,800)</u>	<u>\$228,357</u>	<u>\$226,363</u>

CITY OF CHEROKEE  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2012

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
Essential corporate purpose (aquatic center)	8-15-06	4.10 - 4.60%	\$ 400,000	\$ 260,000
Essential corporate purpose (street sweeper)	11-01-06	4.75%	150,000	35,000
Essential corporate purpose (fire rescue truck)	7-01-08	2.70 - 4.00%	595,000	435,000
Essential corporate purpose	6-01-09	1.35 - 4.125%	945,000	555,000
2010 refunding loan	3-10-10	.85 - 2.65%	2,830,000	2,235,000
2011 capital loan	4-01-11	1.50 - 3.55%	2,500,000	2,500,000
2011 urban renewal	12-08-11	3.50%	245,000	<u>          </u>
TOTAL				<u>\$6,020,000</u>
Revenue Notes:				
Sewer	9-30-99	3.00%	\$2,170,000	\$1,307,000
Sewer	5-04-11	3.00%	144,000	144,000
Sewer	6-19-02	3.00%	3,390,000	2,218,000
Aquatic center	2-02-07	5.00%	1,650,000	<u>500,000</u>
TOTAL				<u>\$4,169,000</u>

## Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ 40,000	\$ 220,000	\$ 11,548	
	35,000		1,663	
	55,000	380,000	16,133	
	160,000	395,000	15,101	
	620,000	1,615,000	38,975	
		2,500,000	77,960	
<u>\$245,000</u>	<u>          </u>	<u>245,000</u>	<u>          </u>	<u>          </u>
<u>\$245,000</u>	<u>\$910,000</u>	<u>\$5,355,000</u>	<u>\$161,380</u>	<u>\$          </u>
	\$107,000	\$1,200,000	\$ 39,210	
	5,000	139,000	4,436	
	156,000	2,062,000	66,540	
<u>          </u>	<u>500,000</u>	<u>          </u>	<u>25,000</u>	<u>          </u>
<u>\$          </u>	<u>\$768,000</u>	<u>\$3,401,000</u>	<u>\$135,186</u>	<u>\$          </u>

CITY OF CHEROKEE  
NOTE MATURITIES  
JUNE 30, 2012

General Obligation Notes

Miscellaneous Projects

<u>Year Ending June 30,</u>	<u>Issued 3-10-2010</u>		<u>Issued 8-15-2006</u>		<u>Issued 12-08-2011</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2013	1.60%	\$ 625,000	4.35%	\$ 40,000	3.50%	\$ 15,000
2014	1.85%	440,000	4.40%	40,000	3.50%	20,000
2015	2.25%	450,000	4.45%	45,000	3.50%	25,000
2016	2.65%	100,000	4.50%	45,000	3.50%	25,000
2017			4.60%	50,000	3.50%	25,000
2018					3.50%	25,000
2019					3.50%	25,000
2020					3.50%	25,000
2021					3.50%	30,000
2022					3.50%	30,000
2023						
TOTAL		<u>\$1,615,000</u>		<u>\$220,000</u>		<u>\$245,000</u>

Revenue Notes

<u>Year Ending June 30,</u>	<u>Sewer Issued 9-30-99</u>		<u>Sewer Issued 6-19-02</u>		<u>Sewer Issued 5-24-11</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2013	3.00%	\$ 112,000	3.00%	\$ 161,000	3.00%	\$ 5,000
2014	3.00%	118,000	3.00%	166,000	3.00%	6,000
2015	3.00%	122,000	3.00%	171,000	3.00%	6,000
2016	3.00%	127,000	3.00%	176,000	3.00%	6,000
2017	3.00%	132,000	3.00%	181,000	3.00%	6,000
2018	3.00%	138,000	3.00%	187,000	3.00%	6,000
2019	3.00%	144,000	3.00%	192,000	3.00%	7,000
2020	3.00%	150,000	3.00%	198,000	3.00%	7,000
2021	3.00%	157,000	3.00%	204,000	3.00%	7,000
2022			3.00%	210,000	3.00%	7,000
2023			3.00%	216,000	3.00%	7,000
2024					3.00%	8,000
2025					3.00%	8,000
2026					3.00%	8,000
2027					3.00%	8,000
2028					3.00%	9,000
2029					3.00%	9,000
2030					3.00%	9,000
2031					3.00%	10,000
TOTAL		<u>\$1,200,000</u>		<u>\$2,062,000</u>		<u>\$139,000</u>

Miscellaneous Projects						
Issued 7-01-2008		Issued 6-01-2009		Issued 4-01-2011		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
3.45%	\$ 60,000	2.35%	\$190,000			\$ 930,000
3.55%	60,000	3.00%	30,000	1.50%	\$ 225,000	815,000
3.70%	60,000	3.30%	35,000	1.90%	230,000	845,000
3.85%	65,000	3.50%	35,000	2.10%	235,000	505,000
3.95%	65,000	3.75%	35,000	2.40%	240,000	415,000
4.00%	70,000	4.00%	35,000	2.60%	245,000	375,000
		4.125%	35,000	2.80%	250,000	310,000
				3.00%	255,000	280,000
				3.15%	265,000	295,000
				3.30%	275,000	305,000
				3.55%	280,000	280,000
	<u>\$380,000</u>		<u>\$395,000</u>		<u>\$2,500,000</u>	<u>\$5,355,000</u>

<u>Total</u>
\$ 278,000
290,000
299,000
309,000
319,000
331,000
343,000
355,000
368,000
217,000
223,000
8,000
8,000
8,000
8,000
9,000
9,000
9,000
10,000
<u>\$3,401,000</u>

CITY OF CHEROKEE  
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST TEN YEARS

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
RECEIPTS:				
Property and other city tax .....	\$2,671,560	\$2,649,433	\$2,582,070	\$2,261,960
Tax increment financing .....	248,846	187,847	280,549	218,619
Licenses and permits .....	18,514	16,584	15,669	26,537
Use of money and property .....	27,010	37,982	46,864	97,953
Intergovernmental .....	927,271	538,638	523,803	765,607
Charges for service .....	178,401	160,338	175,524	140,477
Special assessments .....	171,151	17,224	17,242	18,272
Miscellaneous .....	<u>731,882</u>	<u>502,466</u>	<u>490,343</u>	<u>521,807</u>
 TOTAL RECEIPTS	 <u>\$4,974,635</u>	 <u>\$4,110,512</u>	 <u>\$4,132,064</u>	 <u>\$4,051,232</u>
 DISBURSEMENTS:				
Public safety .....	\$1,022,695	\$1,256,542	\$ 853,192	\$1,345,016
Public works .....	2,784,091	658,880	826,921	665,083
Culture and recreation .....	1,153,249	790,994	775,285	757,638
Community and economic development .....	27,632	9,349	4,920	1,641
General government .....	373,893	341,621	332,516	345,061
Debt service .....	1,604,978	1,518,384	1,526,802	2,113,371
Capital projects .....	<u>207,874</u>	<u>764,547</u>	<u>18,543</u>	<u>291,658</u>
 TOTAL DISBURSEMENTS	 <u>\$7,174,412</u>	 <u>\$5,340,317</u>	 <u>\$4,338,179</u>	 <u>\$5,519,468</u>

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$2,206,233	\$2,135,270	\$2,115,269	\$1,980,336	\$2,073,806	\$1,976,920
202,182	205,308	170,779	221,297	203,467	225,979
28,364	25,777	27,469	25,519	27,128	24,229
132,896	163,893	193,391	133,901	88,240	88,156
567,671	887,099	487,336	528,684	1,184,756	695,258
171,005	101,431	59,620	69,978	82,648	75,819
36,770	25,830	52,077	225,640	24,633	46,920
<u>679,773</u>	<u>1,358,900</u>	<u>567,434</u>	<u>370,588</u>	<u>1,204,605</u>	<u>427,510</u>
<u>\$4,024,894</u>	<u>\$4,903,508</u>	<u>\$3,673,375</u>	<u>\$3,555,943</u>	<u>\$4,889,283</u>	<u>\$3,560,791</u>
\$ 870,531	\$ 922,236	\$ 935,557	\$ 842,842	\$ 825,650	\$ 851,784
761,497	738,554	486,313	629,256	475,612	1,332,189
1,345,196	680,192	909,802	686,449	672,576	887,527
12,361	635	1,777	6,944	99,075	115,244
230,641	303,901	295,914	285,331	288,555	304,447
1,283,427	983,395	1,192,475	2,161,195	4,033,976	2,273,282
<u>139,788</u>	<u>3,032,922</u>	<u>211,407</u>	<u>169,650</u>	<u>2,984,197</u>	<u>          </u>
<u>\$4,643,441</u>	<u>\$6,661,835</u>	<u>\$4,033,245</u>	<u>\$4,781,667</u>	<u>\$9,379,641</u>	<u>\$5,764,473</u>

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INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
City of Cherokee  
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated January 17, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Cherokee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as describe in the accompany Schedule of Findings, we identified a certain deficiency in internal control over financial reporting we consider to be a material weakness.



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as Item I-A-12 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cherokee, and other parties to whom the City of Cherokee may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Winters, Stave & Co., LLP*

January 17, 2013

CITY OF CHEROKEE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

**Part I: Findings Related to the Financial Statements**

**Internal Control Deficiency:**

I-A-12    Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that custody of receipts, preparation of bank deposits, and posting of cash receipts to the cash receipts journal can be done by the same individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider our control procedures.

Conclusion - Response accepted.

**Instances of Non-Compliance:**

No matters were noted.

CITY OF CHEROKEE  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2012

**Part II: Other Findings Related to Statutory Reporting**

- II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the culture and recreation, general government, and debt service functions. In addition, disbursements in the public safety and public works functions exceeded the amounts budgeted prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-12 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-12 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Todd Larsen, Wastewater Superintendent	work done at Community Center	\$ 150
Duane Mummert, Park Superintendent	Tooling expense	\$ 1,000
Mark Casey, brother of City employee	Purchase snow blower	\$ 250

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with each City official do not appear to represent conflicts of interest since the total transactions were less than \$1,500 during the fiscal year.

- II-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF CHEROKEE  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2012

**Part II: Other Findings Related to Statutory Reporting** - Continued

II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-12 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-12 Revenue Notes - The City has complied with various water and sewer revenue note resolutions.

II-I-12 Financial Condition - The Capital Project, Proprietary, Solid Waste, and Agency, Cherokee Aviation Authority funds had deficit balances at June 30, 2012.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response - The deficits are expected to be eliminated as follows:

Capital Projects	Increase revenues
Proprietary, Solid Waste	Reduce spending
Agency, Cherokee Aviation Authority	Receive reimbursement

Conclusion - Response accepted.